The Chartists Perspective 21 Dec, 2011

Where to Next

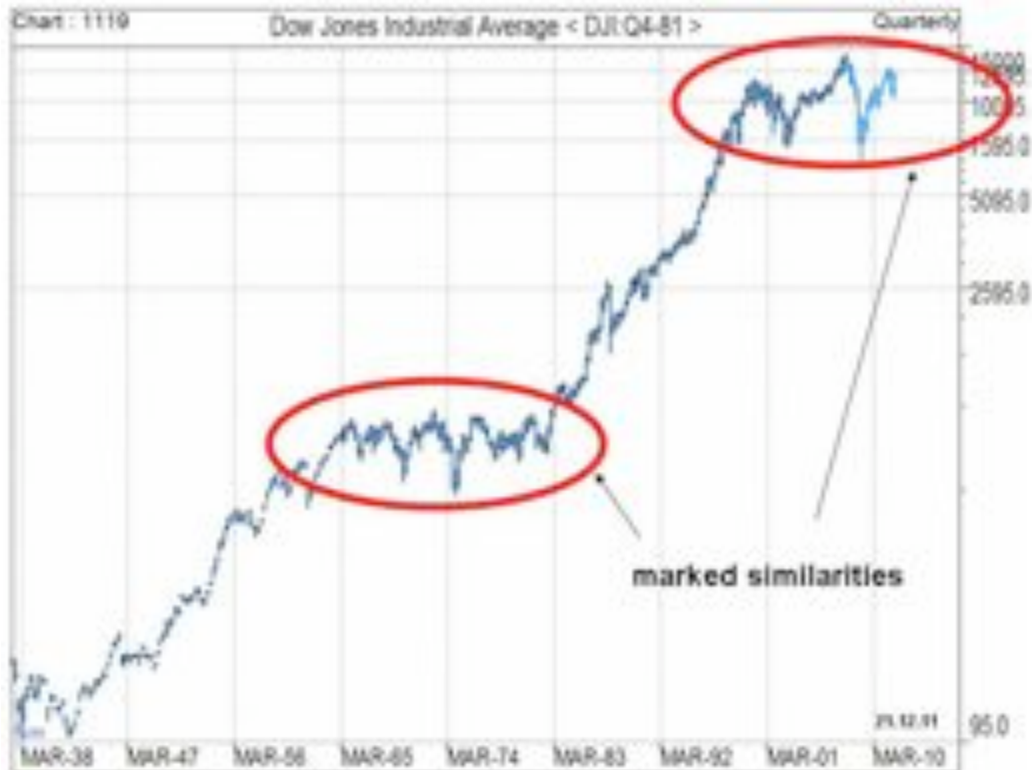
The January Effect

2011 will be remembered as a disturbing year on many fronts. The waves of negativity coming from overseas buffeted global markets and Australia suffered from its own domestic discontent. The January Effect suggests that the stock market performance in the month of January has an impact on its behaviour for the rest of the calendar year. Some like to suggest that it is the first five days of January which are the most important. The accompanying chart tracks the performance of both the New York Dow Jones and the Australian All Ordinaries from January 2011.

It is notable that the New York market was up in the first five days and finished January on a high note and currently is up around 3.7% for the year. If we look at the Aussie market is was down in the first five days and finished the month even and at the moment is down around 15%. 2011 proved to be a volatile year for both markets and we look to their charts to gain an idea of what January 2012 may bring.

New York Dow Jones Industrial Average

A 20th Century fit



I have long held the view that the New York market is performing within a similar style pattern to that it experienced between 1964 and 1982. Moving sideways for eighteen years the market then took off and rose for eighteen years before halting in 1999 and entering a similar sideways phase. As the phase has progressed the low point achieved in 2009 equated to the 1974 low and the recent high in May this year at 12928 bore a marked resemblance to the upward push in 1976. At that time the index reached within 3.8% of its peak within the pattern but in May this year the market was nearly 9.5% short of the pattern peak. This tends to suggest that there is still pattern leeway for the New York market and allows for a push towards 13700 or there abouts, as until the phase comes to completion and the indications suggest that it is not ready for that at this time, that there will not be a significantly new high or low in the US as we advance into 2012.

As we focus in a little closer we find that following the break in the 2009 upward trend in August this year the index entered a volatile phase which remains unpredictable. The phase allows for the Dow to swing between 11000 and 12700 as it attempts to rebalance. Tighter internal guides will act as early trigger points and these lie at 11200-300 and 12300 with the ability to push towards the top of the range over the near term.

Australian All Ordinaries Index

2007 Hangover

The long-term upward path for the Australian market is strongly underpinned and my view remains that it will continue unthreatened into 2012 and beyond. Having said that, there is a caveat that some unrealised downward targets within that trend may need to come into play. The long-term chart highlights the similarities between the 1968-9 peak and that experienced in 2007, but the recent phase has experienced higher volatility and the recent low at 2009 bears a stronger resemblance to the 1971 dip which leaves some uncertainty as to whether the index needs to connect with the longer term trend as it did with the low in 1974 and would indicate a risk towards the 3500-3700 region before the upward path can be fully regained.

Unlike the Dow the upward trend initiated at the 2009 low only lasted twelve months before the combination of resistance around 5000 and the downtrend from the 2007 peak thwarted the rise with the market edging sideways before falling back into decline. As evidenced earlier, the Australian market has declined 15% in 2011, and while the recent action from August has some positive aspects the indications are not clear as to its near-term outcome.

The wider phase parameters lie between 4000 and 4550 with internal trigger points at 4080 and 4250 then higher at 4425 with the index needing to push past 4750 to break the 2007 downward trend. As we move towards 2012 it is not impossible for the market to test its upper barriers but its vulnerability remains high and is threatened by the 2007 overhang.

Gold – Yellow or Black?

Yellow Gold – Comex Spot Gold – Before and After?

There is a saying in Technical Analysis that "what comes before can be repeated afterwards". If we apply this to the long-term chart for the gold price we find that it bolted upwards in the early 1970s, paused and then spiraled higher in a similar fashion to reach the 1980 peak. From here the price entered what is termed a major bear market but its containment lines have similarities to the much briefer 70's setback and so far the "repeat afterwards" is following through and suggests that the bull run in gold is far from over.

In reaching $1911 in September the price hit a combination of barriers; overbought momentum and the return-line of the 2006 upward trend. The action resembles the 2008 experience, when the price peaked around $1000 and then moved sideways and lower across the trend. Focusing in on the shorter term, we find that when the price broke above $1720 in August to race to the $1911 peak it moved outside the daily trend or what I refer to as its “comfort zone” ie the speed of advance or pace that is easy to maintain. Topping out and falling back within the trend path in late September the price reached trend support at $1562 and rebounded within the trend. The rally lost momentum as it moved towards resistance around $1800 and rolled within the trend to re-seek support. The second test of support at $1650 in early December failed with the price gapping down from the trend in what appears to be an opposite reaction to the movement out through the top of the trend in September.

At $1565 on 15 December, the price bounced and faces resistance at $1660 and $1730. As the action progresses in the same fashion as 2008 we cannot rule out another sell-off towards support in the $1435-1500 area before the upswing can be properly resumed. In the event that the downtrend through $1730 is broken in the near term, gold would meet higher barriers at $1800 and then at the peak around $1900. On the other side, a drop below $1435, which is not signaled at this time, would find a safety net within the longer-term trend path which currently runs through $1250.

Black Gold – West Texas International Crude Oil

The “X” Factor

In observing the longer term behaviour we find pattern similarities in the oil price movements are the strongest to the 1980s and 1990s and the volatile swings in price experienced at that time have been reflected in the oil price performance since 2005. Zeroing in to 1996 when the oil price broke its downward trend within the pattern to push up and test higher barriers is very similar in style to the experience this year.

In the 1990s the oil price failed at resistance and tested the bands of support within the pattern, breaking down to seek longer-term trend support. As we observe the current experience the price has recently been rebuffed from resistance at $113 in May and then again around $100 in November. As the price churns it has close support at $88-90 and then in the $65-75 range within the pattern, but if this level is broken in a similar way to the 1990s then the price would be at risk for a further sell-off into the $55-60 range. But the outlook is still uncertain and it remains the “x” factor or the potential dynamo within the commodity sector as the likelihood of such a downturn would be avoided on a price rise through $110, bringing about an earlier upward resolution to the phase than the 1990s experience, spurring a powerful upward impulse in prices.

A$ vs US$

More of the same

The most extraordinary or noticeable factor about the A$ is the change to the long-term downward trend which occurred in late 2003. The subsequent upward path against the US$ has been volatile with a dramatic return to the broken trend with the 2008 plunge. Since then the A$ has experienced an equally dramatic rise to reach a significant target at $1.10 in May and again in July this year. At this level the A$ encountered the combination of target, divergent momentum and a parallel of resistance. In reaction, the A$ fell back to dip through pattern support, in the 94-95c area in October, rebounding befitting its volatile nature. These volatile swings are likely to continue into the New Year with a range between 98c and $1.07 with midway resistance around $1.0375 and as the swings progress the possibility of another dip towards the 85-90c support.

While perhaps not ready to beak away on the upside, when a rise through $1.07 occurs it would trigger another test of the $1.10 level with the A$ hitting resistance at $1.12 and then $1.15 with $1.20 presenting the next major barrier. The danger going forward would be a penetration of the 85c support signaling at test of the critical 76-80c area.

***'The Chartist's Perspective' has been independently derived by Regina Meani from charting and technical assessment, and has not taken into account fundamental analysis*.**

About the Author:

Regina Meani has over 32 years in the stock market as chart & technical analyst, and associate director for Deutsche Bank, and for Huntley's before freelancing. She has lectured for FINSIA, Sydney University and the ASX and written 'Charting- An Australian Investor's Guide'. Regina is a certified financial technician (an international accreditation) a former Director of Australian Technical Analyst Association and is President of Australian Professional Technical Analyst (APTA)

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